



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
JUDICIAL COUNCIL
YEAR ENDED JUNE 30, 1978

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT OF THE
JOINT REVENUE SHARING TASK FORCE
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE
AND THE
DEPARTMENT OF FINANCE

032

FINANCIAL AUDIT REPORT
JUDICIAL COUNCIL
YEAR ENDED JUNE 30, 1978



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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June 28, 1979

032

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the
Auditor General's financial audit report of the Judicial Council,
Year Ended June 30, 1978.

The auditors are Robert L. Hamric, CPA; William L. Woodward, CPA;
Sandra S. Bevers; and Thomas Dovi.

Respectfully submitted,

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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INTRODUCTION

In compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Judicial Council. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code and in the Department of Finance by Section 13294 of the Government Code.

Article VI of the Constitution creates the Supreme Court of California and the Courts of Appeal to exercise the judicial power of the State at the appellate level, creates the Judicial Council of California to administer the state's judicial system and creates the Commission on Judicial Performance. The Commission recommends disciplinary action against judges or privately admonishes them for improper conduct.

The Judicial Council consists of the chief justice; one other Supreme Court justice; three courts of appeal, five superior, three municipal and two justice court judges; four members of the State Bar; and one member of each house of the Legislature. The Council's purpose is to improve the administration of justice by surveying the judicial business; making recommendations to the courts, the Governor and the Legislature relative to the judicial functions; and adopting rules for the orderly administration of the courts.

The Judicial Council also receives federal grants directly from the federal government and through the Office of Criminal Justice

Planning to fund studies and demonstration projects designed to improve judicial administration.

The programs of the Judicial Council are supported by the General Fund, the Motor Vehicle Account in the State Transportation Fund, the Special Deposit Fund and by reimbursements from federal grants.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature
and the Department of Finance:

We have examined the combined balance sheet of the Judicial Council as of June 30, 1978, and the related statements of revenues, expenditures and changes in operating clearing and fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group amounting to \$115,040 at June 30, 1978. Accordingly, we do not express an opinion on the General Fixed Assets account group.

In our opinion, except as stated in the preceding paragraph, these financial statements present fairly the financial position of the Judicial Council at June 30, 1978 and the results of its operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1978, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statements of revenues, expenditures and changes in operating clearing and fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

In connection with our examination, we also made a study and evaluation of the Judicial Council's system of internal accounting control. Our findings are set forth under the heading "Comments and Recommendations."

Revenue Sharing Task Force



Wesley E. Voss
Assistant Auditor General

Date: November 16, 1978

Staff: Robert Hamric, CPA
William Woodward, CPA
Sandra Bevers
Thomas Dovi

JUDICIAL COUNCIL

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978
(With Unaudited Amounts for 1977)

ASSETS	GOVERNMENTAL FUNDS		FIDUCIARY FUND	ACCOUNT GROUP	TOTAL	
	General Fund	Motor Vehicle Account in the State Transportation Fund			(Memorandum Only)	
					June 30, 1978	June 30, 1977
Cash	\$ 72,249	\$ -	\$ 64	\$ -	\$ 72,313	\$ (28,335)
Accounts Receivable	68,965	-	-	-	68,965	79,028
Due from Motor Vehicle Account	17,808	-	-	-	17,808	2,623
Expense Advances to Employees	1,481	-	-	-	1,481	2,092
Equipment	-	-	-	115,040	115,040	113,491
TOTAL ASSETS	\$ 160,503	\$ -	\$ 64	\$ 115,040	\$ 275,607	\$ 168,899
LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY						
Liabilities:						
Accounts Payable (Note 2)	\$ 280,946	\$ -	\$ -	\$ -	\$ 280,946	\$ 205,711
Due to General Fund	-	17,808	-	-	17,808	2,623
Reimbursements Collected in Advance	16,737	-	-	-	16,737	11,912
TOTAL LIABILITIES	297,683	17,808	-	-	315,491	220,246
Encumbrances Outstanding (Note 3)	382,691	-	-	-	382,691	125,782
Fund Equity:						
Investment in General Fixed Assets	-	-	-	115,040	115,040	113,491
Operating Clearing (Note 4)	(519,871)	(17,808)	-	-	(537,679)	(290,612)
Unclaimed Checks and Deposits	-	-	72	-	72	-
Fund Balance	-	-	(8)	-	(8)	(8)
TOTAL FUND EQUITY	(519,871)	(17,808)	64	115,040	(422,575)	(177,129)
TOTAL LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY	\$ 160,503	\$ -	\$ 64	\$ 115,040	\$ 275,607	\$ 168,899

The notes to the financial statements are an integral part of this statement.

JUDICIAL COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	1978			1977
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Revenues: ^{a/}				
Sales of Documents	\$ 2,200	\$ 1,186	\$ (1,014)	\$ 2,000
Other Sources:				
General Fund Appropriations	3,873,621	3,699,798	(173,823)	3,569,087
Reimbursements	541,722	439,633	(102,089)	617,378
Prior Year Income Adjustment	-	1,318	1,318	-
Refunds to Reverted Appropriations	-	8	8	47
Total Sources of Financial Resources	<u>\$4,417,543</u>	<u>4,141,943</u>	<u>\$(275,600)</u>	<u>4,188,512</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	\$2,059,258	2,045,961	\$(13,297)	1,769,891
General Expense	189,033	160,743	(28,290)	126,115
Library	8,455	8,536	81	5,987
Furniture and Files	1,594	1,594	-	14,687
Printing	120,096	119,399	(697)	67,169
Communications	63,519	63,056	(463)	60,045
Travel-In-State	215,004	151,070	(63,934)	195,779
Travel-Out-of-State	2,762	2,762	-	2,215
Consultant and Professional Services	348,749	302,497	(46,252)	259,056
Facilities Expense	110,771	109,313	(1,458)	79,134
Equipment	65,373	60,283	(5,090)	42,262
Alterations	-	-	-	24,565
Special Program Expenses:				
Assigned Judges	424,513	424,513	-	649,936
Coordination of Civil Actions	122,631	123,515	884	69,623
Justice Court Temporary Judgeships	392,106	414,156	22,050	604,574
Arbitration in Superior Courts	330,625	336,325	5,700	149,131
National Center for State Courts	14,000	14,000	-	14,000
Prior Year:				
Prior Year Appropriation Adjustments (Note 7)	-	36,094	36,094	7,994
Total Uses of Financial Resources	<u>\$4,468,489</u>	<u>4,373,817</u>	<u>\$(94,672)</u>	<u>4,142,163</u>
Net Increase (Decrease) in Operating Clearing During the Year		(231,874)		46,349
Operating Clearing - July 1		(287,997)		(334,346)
Operating Clearing - June 30		<u>\$ (519,871)</u>		<u>\$ (287,997)</u>

^{a/} Revenues are not budgeted in the legislative budget bill. The amounts shown on this statement are agency budgeted revenue amounts.

The notes to the financial statements are an integral part of this statement.

JUDICIAL COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
MOTOR VEHICLE ACCOUNT IN THE STATE TRANSPORTATION FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	1978		1977
	Budget As Adjusted	Actual	Over (Under) Budget
<u>Sources of Financial Resources</u>			
Other Sources:			
General Fund Appropriations	\$ 36,888	\$ 21,703	\$ (15,185)
Total Sources of Financial Resources	<u>\$ 36,888</u>	<u>21,703</u>	<u>\$ (15,185)</u>
<u>Uses of Financial Resources</u>			
Expenditures:			
Current:			
Personal Services	\$ 36,888	36,888	\$ -
Total Uses of Financial Resources	<u>\$ 36,888</u>	<u>36,888</u>	<u>\$ -</u>
Net Increase (Decrease) in Operating Clearing During the Year		(15,185)	58
Operating Clearing - July 1		<u>(2,623)</u>	<u>(2,681)</u>
Operating Clearing - June 30		<u>\$ (17,808)</u>	<u>\$ (2,623)</u>

The notes to the financial statements are an integral part of this statement.

JUDICIAL COUNCIL
STATEMENT OF CHANGES IN FUND BALANCE
SPECIAL DEPOSIT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	<u>1978</u>	<u>1977</u>
Fund Balance - July 1	\$ 8	\$ 8
Additions:		
Deposit of Unclaimed Funds	-	-
Deductions:		
Funds Paid to Depositors	<u>-</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 8</u>	<u>\$ 8</u>

The notes to the financial statements are an integral part of this statement.

JUDICIAL COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978

1. Summary of Significant Accounting Policies

The preceding financial statements reflect the financial position and results of operations of the Judicial Council. The accounts are maintained in the General Fund, Motor Vehicle Account in the State Transportation Fund and the Special Deposit Fund.

The accounting policies of the Judicial Council conform to generally accepted accounting principles as contained in the State Administrative Manual.

General Fund

The Judicial Council accounts for only its portion of the state's General Fund. The State Controller maintains central accounts for the General Fund and publishes annual consolidated General Fund statements.

Income:

Throughout the fiscal year, income is accounted on a cash basis, except appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables estimated not to be collectible within one year which are fully reserved.

Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis. Valid expenditure commitments are accrued at June 30.

Motor Vehicle Account in the State Transportation Fund

The Motor Vehicle Account in the State Transportation Fund reimburses the General Fund of the Judicial Council for the salary of Traffic Court Coordinator.

Income:

The Judicial Council does not collect revenue for this fund.

Expenditures:

During the fiscal year, expenditures are accounted on a Plan of Financial Adjustment filed with the State Controller. Valid expenditure commitments are accrued at June 30.

Special Deposit Fund

Monies received or collected for specific purposes by a state agency for which no fund has been created in the State Treasury are accounted in the Special Deposit Fund. The State Controller maintains separate fund accounts for each agency and publishes consolidated Special Deposit Fund statements.

Income and Expenditures:

Both income and expenditures are accounted on a cash basis during the fiscal year.

Liabilities

Retirement Plan: Regular employees of the Judicial Council are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs accrued. Retirement contributions for the year included in the expenditures-personal services account were \$249,723.

Vacation and Sick Leave: The State does not record the costs of vacation and sick leave at the time the benefits are accumulated. At the time of usage, the expenditures-personal services account is charged.

General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. The aggregate cost, with the exception of certain nonexpendable equipment items not on the State Administrative Manual equipment list, is capitalized and fully reserved on the balance sheet. Nonexpendable equipment, generally valued at \$150

or over with a useful life of two years or more, is recorded at original cost or, if not available, at fair market value.

2. Accounts Payable

Accounts payable include all unpaid liabilities for goods and services received as of June 30. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.

3. Encumbrances Outstanding

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30.

4. Operating Clearing

This account is the connecting link between the Judicial Council's portion of the General Fund and the central accounts of the General Fund or other funds maintained by the State Controller. The account balances at June 30, 1978 represent a clearing account between the Council and the State Controller.

5. General Fixed Assets Account Group

The agency has not maintained an adequate record of its general fixed assets. Subsidiary records are not reconciled with the general ledger equipment account. In addition, the costs of facilities constructed at

the premises occupied by the Judicial Council have not been recorded.
The Judicial Council staff could not determine these amounts.

6. Operating Leases

The following is a yearly schedule of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 1978:

Year Ending June 30:	
1978	\$125,364
1979	<u>73,129</u>
Total Minimum Payments Required	<u>\$198,493</u>

The following schedule shows the total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	<u>Year Ending June 30,</u>	
	<u>1978</u>	<u>1977</u>
Minimum Rentals	<u>\$69,621</u>	-0-

7. Prior Year Appropriation Adjustment

This account shows the difference between the net amount of expenditures, abatements and reimbursements accrued as of the previous June 30 and the actual amount of expenditures, abatements and reimbursements during the current fiscal year (including accruals) for appropriations no longer available for encumbrance.

COMMENTS AND RECOMMENDATIONS

Internal Accounting Control

As part of our examination, we made a study of the Judicial Council's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing the examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstood instructions, mistaken judgment, carelessness or

other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to executing and recording transactions or with respect to the estimates and judgments required in preparing financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements was made in accordance with generally accepted auditing standards. This included studying and evaluating the Judicial Council's system of internal accounting control for the year ended June 30, 1978. This study and evaluation was designed for the purposes set forth in the first paragraph of this section of the report and would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

Procedural matters warranting comment that came to our attention during the course of our examination of the Judicial Council are discussed below. In accordance with the Legislative Counsel's opinion #16995, dated December 6, 1977, the Council is not required to follow procedures of the State Administrative Manual as regards disbursement of funds; however, sections of the State Administrative Manual are cited when considered acceptable accounting practices.

Cash and Accounts Receivable Records Are Inadequate

The Council does not maintain sufficient source documentation for collections and accounts receivable. Consequently, it is difficult to determine the accounts receivable balance at any point in time. Because the Council does not prepare a report of collections or a cash receipts register (as required by Sections 8092 and 8093 of the State Administrative Manual), it is difficult to determine when payments were received, which payments have not been remitted to the State Treasurer and which items were not deposited at year-end.

Other weaknesses in internal control include combining the responsibilities of billing receivables and handling cash. This practice allows the employee who is responsible for receivable adjustments to perform other duties in the billings process. Also jury duty fees are not recorded as accounts receivable as required by Section 8594 of the State Administrative Manual.

Recommendation:

- The Council prepare a report of collections and maintain the cash receipts register as required by Sections 8092 and 8093 of the State Administrative Manual.
- The Council establish an accounts receivable register showing the date of the invoice, name of invoicee, amounts and type of billing. The register should also identify the date of payment.
- The Council separate the duties of making adjustments to receivables and handling disputed items from other duties in the billing process. Also, the employee who prepares invoices and maintains the accounts receivable register should be prohibited from handling cash.
- The Council include jury duty fees in payroll accounts receivable as required by Section 8594 of the State Administrative Manual.

Bank Account Outside the State Treasury

The Commission on Judicial Education and Research (CJER), a division of the Judicial Council, maintains a bank account outside the State Treasury system. This account has not been approved by the Department of Finance, Fiscal Systems and Consulting Unit as required by Section 8002 of the State Administrative Manual. Approval is required to assure the outside bank account conforms with Government Code regulations.

The bank account does not contain state money but instead includes fees collected from participants in CJER activities.

Recommendation: The Council secure approval of the account outside the State Treasury system as required by Section 8002 of the State Administrative Manual.

Accounting controls over transactions for this bank account outside the State Treasury system are weak. Good internal control would require institution of the following procedures:

- Maintaining a cash receipts register for money received and deposited in the outside bank account as described in Section 8093 of the State Administrative Manual
- Separating the following duties:
 - a. Receiving and depositing cash and checks
 - b. Signing checks
 - c. Disbursing checks.
- Preparing a cash receipt for collections as a posting medium (see SAM Section 8020). Receipts are required for collections received in person
- Prohibiting personnel from writing checks made out to "cash"

- Shifting the responsibility for reconciling the bank statements to the Judicial Council Accounting Unit, and providing this unit with the information necessary to reconcile the statements. The bank should send the monthly statements and paid checks to the San Francisco office where a responsible officer of the Council could sign the reconciled bank statements.

Recommendation: The Council institute these procedures to strengthen internal control.

Controls Over Revolving Fund Are Inadequate

Section 8111.2 of the State Administrative Manual requires that petty cash be counted at least annually. SAM Section 8116 requires confirmations for outstanding travel advances at year-end; SAM Section 8192 requires a receivables ledger. Lastly, SAM Section 8193 states that the revolving fund resources must be reconciled monthly with accountability. The Judicial Council does not conform to these requirements. Adherence to these requirements would strengthen internal controls and provide necessary accounting records.

Recommendation:

- The Council ensure that change funds are counted at least as often as required by SAM Section 8111.2 and that amounts in the change funds are reviewed periodically to determine if they are too high
- The Council obtain and retain for audit written confirmations of outstanding continuing travel advances as required by SAM Section 8116
- The Council establish and maintain receivables ledger outlined in SAM Section 8192. The Council should promptly clear revolving fund receivables and thoroughly investigate any receivable outstanding more than six months
- The Council reconcile the revolving fund to accountability monthly as required by SAM Section 8193, and the fiscal officer review and sign the monthly statement of accountability.

Revolving Fund Was Used For Unauthorized Purposes

Sections 8100-8120 of the State Administrative Manual list the restrictions placed on the use of the revolving fund to prevent its abuse by agencies. Specifically, the revolving fund should be used to pay vendors only when all the following conditions are met:

- The vendor offers a discount of at least \$2.50 if paid within a specified time period
- The discount percentage allowed is at least one-half of one percent
- The discount period is too short to permit taking advantage of the discount if the payment is made by warrant.

The Judicial Council has been issuing a revolving fund check whenever the vendor demands immediate payment, regardless of whether there was a discount or the amount of the discount involved was appropriate.

The discount requirements in Section 8113 of the State Administrative Manual are based on the costs to the State of processing a payment through the revolving fund as opposed to a claim schedule, and the cost of lost interest on state funds due to immediate payment. By paying some vendors through the revolving fund, the Council is consequently spending state money not shown on these financial statements besides being unfair to vendors who are paid through normal claims procedures.

Recommendation: Judicial Council issue revolving fund checks only for the purposes outlined in SAM Sections 8100-8120, with special attention to SAM Section 8113 which requires that certain conditions be met before a revolving fund check can be issued to a vendor.

Accounting Controls Over Checks Are Inadequately Separated

One employee at Judicial Council has the responsibilities of signing checks, maintaining the check disbursement register and controlling the blank check stock. Combining these responsibilities weakens internal control and is not in compliance with SAM Section 8080.

Recommendation: The Council segregate the responsibilities for check-handling as required by SAM Section 8080.

Weak Controls Over Temporary Employees Could Cause Abuse

The Chief Justice has designated that the Director of the Judicial Council hire for the Judicial Council. However, the Center for Judicial Education and Research (CJER) has been hiring temporary help without the certification of the Director of the Judicial Council. This procedure circumvents the Council's own internal controls and could lead to abuse of expenditures.

Recommendation: All temporary employees be certified by the Director of the Judicial Council.

Separation Of Payroll Duties Is Inadequate

The Council allows the same employee to both handle payroll warrants and sign payroll documents. This practice does not conform to Section 8580.1 of the State Administrative Manual and thus weakens internal control over payroll.

Recommendation: The Council separate the duties which involve handling payroll warrants from the duty of signing payroll

documents. These duties should be reviewed semi-annually as required by SAM Section 8580.1.

Separation of Duties For Purchasing Is Inadequate

One employee at CJER is allowed to authorize purchases, certify receipt of goods and services and authorize payments. Segregation of these duties is necessary to prevent unnecessary, fraudulent or accommodation purchases.

Recommendation: The following duties be separated at CJER:

- Authorizing purchases
- Certifying receipt of goods or services
- Authorizing payments.

Property Accounting Needs Strengthening

Accountability for property transactions needs strengthening.

Comments and recommendations follow:

Equipment Records

The Council does not maintain a current equipment property ledger or property cards for all items of equipment.

Recommendation: A property ledger be prepared and maintained as prescribed in Section 8654.1 of the State Administrative Manual.

Property Reconciliations

The Council does not prepare a monthly (or quarterly) reconciliation of equipment expenditures from current appropriations with additions of major property.

Recommendation: Property reconciliations be prepared as prescribed by Section 7923 of the State Administrative Manual.

Physical Inventory

The Council has not taken a physical inventory of its equipment in over five years.

Recommendation: Physical inventories of equipment be made once every three years as prescribed in Section 8659 of the State Administrative Manual.

Identification of State Property

Equipment belonging to the Council has not been properly tagged in all cases. Proper identification is described in Section 8637 of the State Administrative Manual.

Recommendation: The Council promptly and properly tag equipment as required by SAM Section 8637.

Responsibility for Property Accounting

The Council has not designated employees to handle specific responsibilities for property accounting. These responsibilities include:

- Maintaining custody of unassigned equipment
- Disposing of surveyed property
- Maintaining property ledger
- Reconciling property ledger with general ledger
- Taking physical inventories
- Reconciling physical inventories with perpetual inventory records.

These responsibilities should be distributed among several employees.

Recommendation: The Council assign responsibilities for property accounting, distributing these duties among several employees.

AUDIT ADJUSTMENTS

The aforementioned financial statements contain adjustments to the following accounts:

- Cash
- Accounts Receivable
- Expense Advances to Employees
- Accounts Payable
- Encumbrances Outstanding
- Reimbursements
- Expenditures
- Prior Year Appropriation Adjustments
- Revenue
- Prior Year Income Adjustments
- Operating Clearing.

The adjustments were necessary to correct the Council's accrual entries. The Council concurred with the suggested journal entries and accordingly adjusted the financial records to reflect those adjustments.



JUDICIAL COUNCIL OF CALIFORNIA

ADMINISTRATIVE OFFICE OF THE COURTS

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RALPH J. GAMPELL
DIRECTOR

RICHARD A. FRANK
DEPUTY DIRECTOR

June 7, 1979

Mr. Robert L. Hamric, CPA
Audit Manager
Office of the Auditor General
Department of Finance
1025 P Street
Sacramento, California 95814

Dear Mr. Hamric:

In response to the Financial Audit Report of the Judicial Council for the year ended June 30, 1978, the following comments are presented:

Page 15, Recommendation 1. A report of collections and a cash receipts register as required by Sections 8092 and 8093 of the State Administrative Manual will be completely implemented on July 1, 1979. At this time, the Judicial Council maintains a report of collections and a cash receipts register which are not entirely in conformance with the State Administrative Manual requirements and format.

Page 15, Recommendation 2. The Judicial Council will establish an accounts receivable register effective July 1, 1979. At this time, the Council maintains individual accounts receivable registers in the federal grant records that contain all the essential data that would normally appear in the accounts receivable register.

Page 15, Recommendation 3. The Judicial Council has completely separated the duties of making adjustments to receivables, handling disputed items in the billing process, preparing invoices, maintaining the accounts receivable register and handling cash.

Page 15, Recommendation 4. The recommendation is that "the Council include jury duty fees in payroll accounts receivable. . ." I spoke to Sandra Bevers on May 17, 1979 in order to clarify the audit terminology "payroll accounts receivable". She advised that we are to be advised by the Personnel Office at the time an employee is required to report for jury duty in order to set up an Accounts Receivable-Abatement in advance. The Personnel Office

is not notified in advance because so few employees are assigned to jury duty and are aware of the duty at the time of receipt of the absence report at the end of the month. The Personnel Office provides the Accounting Office with a copy of the absence report and the check for the duty subsequently follows. At the time of receipt of the warrant, recordation of the Accounts Receivable-Abatement is made. Jury duty fees will be set up as accounts receivable as soon as we are aware of the duty.

Page 16, Recommendation 5.^{a/}

Page 17, Recommendation 6.^{a/}

Page 17, Recommendation 7. The Council's change funds are counted as required by Section 8111.2 of the State Administrative Manual and the amounts will be reviewed periodically to determine if the fund amounts are too high. Documentation of the count began in May 1979 and will continue from this time forward.

Page 17, Recommendation 8. We accept the recommendation that the Council obtain and retain written confirmations of outstanding continuing travel advances and will implement completely especially as to the requirements at the fiscal year end.

Page 17, Recommendation 9. In response to statement one, the Council has established and does maintain a revolving fund receivables ledger. However, this ledger does not conform to the format outlined in the State Administrative Manual due to the nature of this fund. This portion of the recommendation will be implemented on July 1, 1979. In response to statement two, the Council has fully complied with the recommendation to promptly clear revolving fund receivables and investigate any receivables outstanding more than six months.

Page 17, Recommendation 10. The Council reconciles the revolving fund monthly. The bank reconciliation conforms to the requirements of the State Administrative Manual. The revolving fund resources are reconciled with the amount of cash advanced; however, the format of the reconciliation is not in conformance with the requirements of the State Administrative Manual. The monthly format is a detailed listing of receivables and the yearly format is in conformance with the State Administrative Manual. This recommendation will be completely implemented July 1, 1979.

Page 18, Recommendation 11. The recommendation is that the Judicial Council issue revolving fund checks only for the purposes outlined in Sections 8100 - 8120 of the State Administrative Manual, with special attention to SAM Section 8113 which requires that certain conditions be met before a revolving fund check can be issued to a vendor. The report specifically refers to the fact that the "Council has been issuing revolving fund checks whenever the vendor demands immediate payment. . . ." The terminology vendor is incorrect insofar as the invoices labeled "vendor . . ." have been for personnel expenditures. Section 8110 of the State Administrative Manual advises of the

permissible uses of the revolving fund. The section states "Revolving fund checks are to be used for compensation earned. . . ." As the invoices labeled "vendor demands immediate payment" were for services rendered, it is believed that the Council has made appropriate use of the revolving fund.

Page 19, Recommendation 12. The Council has fully complied with the recommendation to segregate the responsibilities for check-handling.

Page 19, Recommendation 13.^{a/}

Page 19, Recommendation 14. The Council separated the duties which involve handling payroll warrants from the duty of signing payroll documents on January 27, 1978.

Page 20, Recommendation 15.^{a/}

Page 20, Recommendation 16. As prescribed in Section 8654.1 of the State Administrative Manual, the Council prepares a property ledger which consists of the original copy of individual Property Records Cards, Standard Forms 153-A. However, as a physical inventory had not been taken for a number of years, the total value representing the sum of the cards does not agree with the General Ledger property control Account Number 167. A reconciliation of the property ledger and the general ledger is in progress.

Page 21, Recommendation 17. Property reconciliations have been prepared monthly as prescribed by Section 7923 of the State Administrative Manual. This reconciliation is one which is done monthly as a part of the entire month-end reconciliation process. Due to a lack of a physical inventory, it is probable that this reconciliation has not been complete. With the physical inventory update, we can completely comply with this recommendation.

Page 21, Recommendation 18. A physical inventory was taken in 1979 and will be reconciled prior to June 30, 1979.

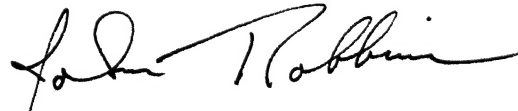
Page 21, Recommendation 19. Upon completion of the equipment inventory reconciliation, the recommendation that all equipment be properly tagged will be completely implemented.

Page 21, Recommendation 20. The Council will assign the responsibilities for property accounting (acquisition, inventory, survey) to several employees.

Sincerely,

Ralph J. Gampell, Director

By



John Robbins

Special Assistant to the Director

JR:CS:nad

^{a/} The initially-appointed advisory body for the Center for Judicial Education and Research was granted a delegation of authority by

former Chief Justice Wright which permitted CJER, to a significant degree, to manage its own administrative and business affairs. In view of the several audit exceptions that pertain to CJER, we are examining that delegation. The goal will be to end any unsound business practices noted in the audit and bring them more into conformity with procedures recommended in the State Administrative Manual.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps